MANAGEMENT CONTROLS IN TODAY'S ARMY

The Army Management Control Program

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MANAGEMENT CONTROL REFERENCES

- *Federal Managers Financial Integrity Act of 1982 (PL 97-255)*
- *GAO Standards for Internal Control in the Federal Government, November 1999*
- *OMB Circular A-123, Management Accountability and Control, 21 June 1995*
- *DOD Directive 5010.38, Management Control Program, 26 August 1996*
- *DOD Instruction 5010.40, Management Control Program Procedures, 28 August 1999*
- *Army Regulation 11-2, Management Control, 1 August 1994*

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FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

(the Integrity Act)

Agencies must:

- Establish effective management controls
- Evaluate management controls periodically
- Submit a broad annual assessment
- Report, track & correct material weaknesses in management controls

The Integrity Act applies to <u>all</u> Federal managers, not just financial managers!

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OMB CIRCULAR A-123

Key points:

- **Holds Federal managers responsible for:**
  - **Proper stewardship of Federal resources**
  - **Effective -- and cost-effective -- management controls**
- **Provides flexibility for Agency implementation**
- **Describes:**
  - **Management controls, their purpose & standards**
  - **How to assess controls**
  - **The "statement of assurance"**
  - **Identification, reporting & correction of material weaknesses**
- **Encourages use of "senior management councils"**

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WHAT IS A MANAGEMENT CONTROL?

Anything intended to ensure that:

- ***What should happen does happen***
- ***What shouldn't happen doesn't happen***

Management controls include:

- ***Organization***
- ***Policies***
- ***Procedures***
- ***Devices***

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EXAMPLES OF MANAGEMENT CONTROLS

Management controls include:

- ***A lock on a warehouse door***
- ***A doctors' prescription***
- ***An authorization to make a purchase***
- ***A certification that goods / services have been received before payment***
- ***A command and control system***

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WHY HAVE A MANAGEMENT CONTROL PROGRAM?

Effective management controls ensure:

- ***Accurate and reliable information***
- ***Compliance with laws & policies***
- ***Safeguarding of resources***
- ***Economical & efficient use of resources***
- ***Safety of operations***

Management controls are

not an end in themselves.

They are a means to an end:

Mission

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THE ARMY MANAGEMENT CONTROL PROGRAM

Major elements of the Army's program:

- Day-to-day Program Execution
  - Key management controls
  - Management control plans
  - Management control evaluations
  - Assessable Unit Managers
- The Annual Statement of Assurance
- The US Army Audit Agency

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KEY MANAGEMENT CONTROLS

Key management controls are:

- ***Selective***
- ***Determined by the HQDA functional proponent***
- ***Identified in their Army Regulations***
- ***Evaluated formally at least once every five years***

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MANAGEMENT CONTROL PLANS

A management control plan:

- ***Is a schedule of evaluations***
- ***Is prepared by each command or activity***
- ***Shows:***
  - ***<u>What</u> will be evaluated***
  - ***<u>Who</u> will do the evaluation***
  - ***<u>When</u> they will do it***
- ***Can be merged w/ other "oversight" plans***

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MANAGEMENT CONTROL EVALUATIONS

A management control evaluation must:

- ***Test the key controls***

  (e.g., sampling, file review, observation, simulation)
- ***Document the results***

  (e.g., how tested, deficiencies found, actions taken)

Managers decide how to evaluate:

- ***With a management control checklist***
- ***Using some existing review process***

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ASSESSABLE UNIT MANAGERS

These individuals are:

- ***The heads of organizations***
- ***No lower than Colonel or GS-15***
  (where grade structure is lower, can be senior functional manager)
- ***Identified by their commands***
- ***The approval authority for management control evaluations***

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STATEMENT OF ASSURANCE

The Army statement consists of:

- Cover memo fro Sec Army w/ statement of assurance
- Tab A – how the Army's assessment was conducted
- Tab B – the material weaknesses being reported
- Tab C – the Auditor General's independent assessment

The Army statement is supported by:

- Feeder statements from MACOMs & HQDA staff
- Coordination of the draft statement
- Final review by the Army's Senior Level Steering Group
- Review of the program & statement by Army Audit Agency
- Independent assessment from Auditor General

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US ARMY AUDIT AGENCY

The AAA role in the Army process:

- Review management controls in audits
- Recommend key controls
- Identify potential Army weaknesses
- Advise Senior Level Steering Group
- Validate closure of Army weaknesses
- Encourage reporting of weaknesses w/ policy
- Conduct annual review of program & statement
- Issue independent Auditor General assessment

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THE KEYS TO SUCCESS

A successful management control program must have:

- ***Leadership emphasis***
- ***Education and training***
- ***Assessment of controls***
- ***Reporting of material weaknesses***

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LEADERSHIP EMPHASIS

Army leadership philosophy:

Make the Army a good place

invest the public's money!

Army leadership involvemer

- ***Secretary & Chief of Staff le***
- ***Senior Level Steering Group***
  - ***In May (mid-year):***
    - ***Review progress in correcting material weaknesses***
    - ***Review potential new material weaknesses***
  - ***In November:***
    - ***Final review of the Army statement***

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LEADERSHIP EMPHASIS

Army leaders have consistently stressed the importance

of effective management controls:

"We must convince the Congress that we are good stewards of the public's tax dollars. Effective management controls are essential to gaining that trust."

Thomas E. White, Secretary of the Army & GEN Eric K. Shinseki, Chief of Staff, Army

"Our nation has entrusted us with precious human and material resources and received in turn our commitment that, with our prudent stewardship, we will maintain the finest army in the world ."

Togo D. West, Jr., Secretary of the Army

"We must improve our stewardship – how we safeguard our physical assets, how we control our sensitive items, how we account for and report our financial assets – and we must invest the time and energy to do it now."

GEN Gordon R. Sullivan, Chief of Staff, Army

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EDUCATION AND TRAINING

Management control training is available through:

- ***Blocks of material in soldier & ci***
- ***Standard training packages***
- ***Administrator's handbook***
- ***Government Audit Training Instit***
  (two-day course on Army's prog
- ***Annual training conference***
- ***ASA (FM&C) management control staff***
- ***ASA (FM&C) website:***
  http://www.asafm.army.mil/fo/fodmc/mc.asp

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ASSESSMENT OF CONTROLS

Any Federal agency or commercial firm must:

- ***Understand its areas of greatest risk***
- ***Establish controls to mitigate that risk***
- ***Assess those controls to ensure they're effective***

Army's annual assessment is based on:

- ***Management control evaluations***
- ***Functional program reviews***
- ***Audits & inspections***
- ***Day-to-day actions & events***
- ***General knowledge of operations***

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REPORTING OF MATERIAL WEAKNESSES

Criteria: a material weakness:

- Is a management control problem:
  - Controls not in place
  - Controls not being us
  - Controls not adequat
- Warrants attention at t
  next level of command:
  - For their action
  - For their awareness

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REPORTING OF MATERIAL WEAKNESSES

Why some hesitate to report:

- Fear of criticism (an "unnatural act")
- Fear of wider awareness / interference / "help"

Excuses for not reporting:

- "The problem was reported through other channels!"
- "The problem has already been fixed!"
- "The problem was human error!"

Why reporting is important:

- Sharing information
- Maintaining credibility
- Elevating problems for help

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ARMY MATERIAL WEAKNESSES

FY 2002 Statement of Assurance

- *In-Transit Visibility Policies and Procedures (NEW)*
- *Line-of-Duty and Incapacitation Pay (NEW)*
- *Army Purchase Card Program (NEW)*
- *Standard Procurement System Interface with Computerized Accounts Payment System*
- *Financial Reporting of General Equipment*
- *Customer Service Call Center Backlog (CLOSED)*
- *Management of Unexploded Ordnance*
- *Pollution Prevention Management (CLOSED)*
- *Manpower Requirements Determination Process*
- *Financial Reporting of Equipment In-transit*
- *Information Systems Security*
- *Automated Mobilization System*

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DOD SYSTEMIC MATERIAL WEAKNESSES

FY 2002 Statement of Assurance

- Financial Management Systems and Processes
- Environmental Liability
- Munitions and Explosives
- Contracting for Services
- Government Card Program Management
- Information Assurance
- Personnel Security Investigations Program
- Management of Real Property (Facilities)

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BOTTOM LINE:

Management controls are the means for accomplishing your mission with[illegible] reso[illegible]

EXAMPLES OF MANAGEMENT CONTROL FAILURES

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SOME REALLY CLEAN PLANES

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CRASH OF AIR FRANCE CONCORDE

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FIRESTONE TIRE / FORD EXPLORER

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RANGER TRAINING INCIDENT

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ATTACK ON THE USS COLE

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ATTACK AT KHOBAR TOWERS

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"FRIENDLY FIRE" DESTRUCTION OF BLACK HAWK HELICOPTERS OVER IRAQ

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BREAKUP OF THE SPACE SHUTTLE COLUMBIA

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BOTCHED TRANSPLANT SURGERY AT DUKE UNIVERSITY MEDICAL CENTER